

Synchrony Venture News

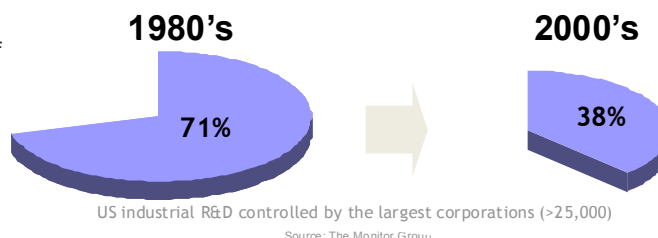
Rise of Venture Capital Has Changed The Innovation Landscape

Twenty years ago, if a dollar was spent on R&D, chances were 7 in 10 that it was spent by a firm with over 25,000 employees. But by the middle of this decade, those numbers had nearly flipped. As of 2005 only 38% of all R&D dollars were being spent by large firms, with a trend line that suggests the number today has fallen to 30% or less.

But these numbers shouldn't be construed to suggest that R&D activity has diminished. In fact, with product lifecycles shorter, the introduction of what was once considered esoteric technology into even the most mundane products (Roomba, anyone?), and the increasing pressures of globalization, large companies feel a greater need than ever to offer their customers new, compelling capabilities. The difference is where they get it: today, over 64% of all technology is sourced from outside the enterprise, up from 24% in the 1980s.

It's no coincidence that the reduction of R&D spending levels has been accompanied by the rise of venture capital as the primary resource for innovators seeking to bring new products and services to large, lucrative markets. The advantages of the VC model are compelling: dollars spent externally on VC investment are over 3 times more efficient at producing innovation value than dollars spent in R&D endeavors (source: Josh Lerner and Samuel Kortum, Harvard Business School).

The implications for large enterprises are clear and compelling: VC-backed innovators have clear competitive advantages for certain types of technology commercialization, and have caused a shift in the landscape that is both dramatic and here to stay.



Large Corporations No Longer Dominate R&D

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Dear Clients & Friends:

"Though April showers may spoil the day
They bring the flowers that come in May"

So goes the old song, and so goes the mindset of smart innovation managers in times of market turmoil. Indeed, with operating budgets – and especially R&D budgets – under the cloud of looming recession, corporate investors are starting to see compelling opportunities to leverage their strong balance sheets by partnering with the early-stage firms that are working on the next wave of innovation. And with the winds of policy change barreling towards Washington, it's becoming clear that the innovation ecosystem is going to be one of the brightest spots in the economy for some time to come.

At Synchrony, we think Warren Buffet's famous maxim to "sell when others are greedy and buy when they're afraid" sounds like a pretty good idea. This is even more true when one is a position to capture the undivided attention of an early-stage partner who sees your resources and capabilities as a good way to make it through to the other side.

We hope you find the latest edition of our newsletter of interest, and we hope you'll get in touch to learn how we can help you leverage your core assets to pursue the opportunities of this new, changed landscape.

With kindest regards,



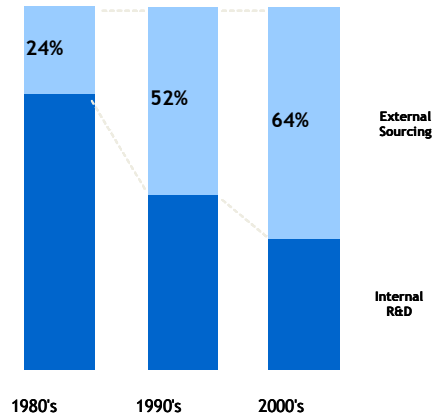
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"Synchrony's model is a great way to achieve open innovation goals"
Henry Chesbrough on Synchrony Venture Management

Rise of Venture Capital Has Changed The Innovation Landscape (cont. from p1)

But VC-backed firms don't have all the answers, nor can they do it alone. Even the most compelling, game-changing innovation faces tremendous challenges in validating its commercial value and building the franchise necessary to reach its potential. At the right point in its development, almost every entrepreneurial firm can both offer, and derive, huge value by partnering with the right incumbent.

At Synchrony, we believe that these structural changes and the constant flow of innovative venture-backed firms represent a huge opportunity for savvy, forward-looking corporations. With a well-run program of making targeted investments in strategically relevant start-ups, a large corporation can leverage its operations, knowledge of markets, and ability to successfully introduce innovations in partnership with an early-stage firm and create tremendous value.



Source: The Monitor Group

Technology Sourcing is Moving External

CVC Leaders Embrace Open Innovation at TechConnect

For 2008, the annual TechConnect Summit was held in Boston. The conference was co-located and coordinated with NSTI Nanotech 2008, Clean Technology 2008, and NSTI BioNano 2008 Conferences and Trade Shows.

The conference, which attracted 4000 attendees, brought together established corporations, investors and early-stage technology firms. The corporations presented their corporate needs for technology and innovation, while several hundred startups presented their solutions in presentations or on the show-case floor.

BASF Venture Capital GmbH
•23 Investments
•\$83 million invested

BASF Future Business GmbH
•2 Investments
•\$7.4 million invested

DOW Venture Capital I,II,III,IV,V
•42 Investments
•\$180 million

DuPont Ventures
17 Investments
\$33 Million

With material science and CleanTech becoming the key drivers of innovation for the next 20 years, the conference was abuzz with new technology ideas and opportunistic business-to-business discussions.

Represented at the conference were some of the leading corporate venture capital investors, including BASF Ventures, Air Products, and General Electric.

These leading CVC investors have embraced Open Innovation a fundamental driver to growth and profitability through differentiated technology and solutions. Even a firm as large as General Electric has forayed into

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What is Innovation CapitalSM?

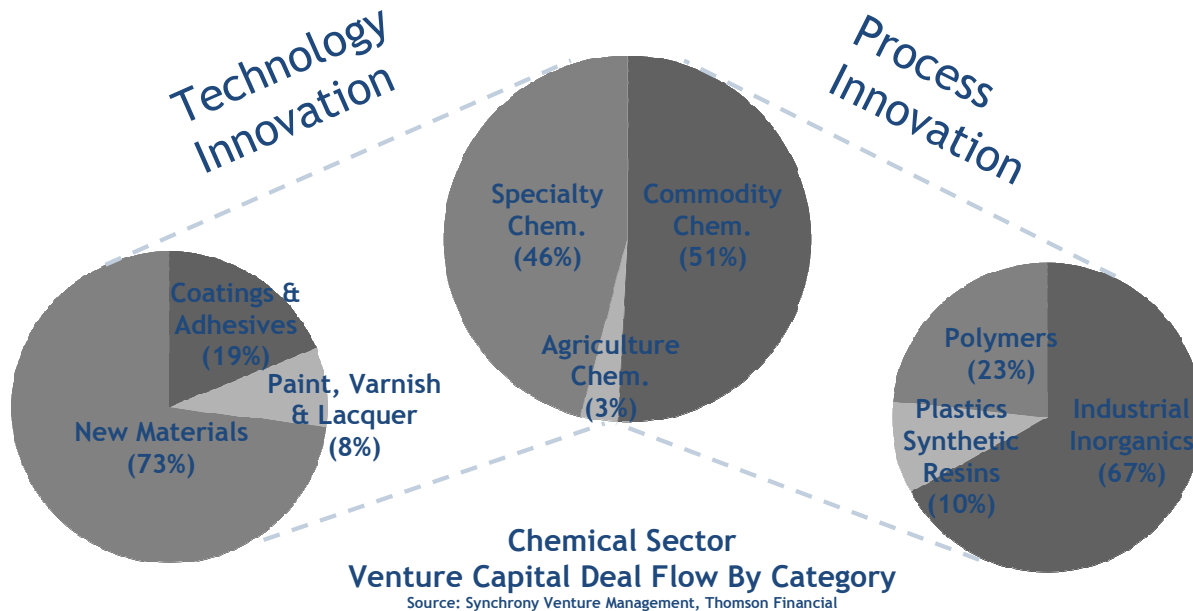
The use of corporate venture investment to create new opportunities and options:

- Attract high-value options through investment and interaction
- Generate two-way value through complimentary assets
- Establish game-changing portfolios of innovation assets that create new opportunities and competitive advantage

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For feedback, comments and story ideas, please contact:

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TechConnect (cont. from p2)

early-stage venture investment through a dedicated fund launched in 2007. GE has historically focused on later-stage deals, but the company realized the importance of establishing visibility into early-stage technology opportunities through a dedicated early-stage CVC program.

The chemical industry was represented by top leaders, including BASF SE, Air Products & Chemical Inc. and Cabot Corp. Each company outlined their corporate and technology needs.

While many players in the chemical industry are struggling with low growth and diminished profitability, BASF and Air Products generated compelling returns through the innovation strategies they've pursued in recent years. Both companies are using their corporate venture capital program to target and understand new growth opportunities, while improving established business areas.

Representing BASF at the conference was Dr. Mark Mielke, Senior Manager, BASF Future Business North America. Dr. Mielke indicated that BASF is looking for both technology and business model innovation, and their approach has included making investments that will move the company higher on the value chain and contribute to sustainable profitability. One example, is BASF's choice to move up the value chain to sell BASF-branded fuel cells

versus positioning themselves primarily as a component and technology supplier in the supply chain.

Representing Air Products at the conference was Vincent Magnotta. Air Products has been profiled as an innovation leader in Henry Chesbrough's best-selling book, *Open Business Models*. As a result, Air Products has become a poster-child for embracing open innovation. Chesbrough, who coined the term 'Open Innovation' and is the primary thought-leader in the field, has published several books on the topic. At the conference, Magnotta touted the virtues of open innovation, citing the increased pressure for faster, better, and lower cost product development. Further, Magnotta noted that no single company has greater than 1% of global R&D capacity, and it would be "introverted" if a company thought they could do it all themselves. Bottom line, at Air Products the "not-invented-here" mindset does not exist and the company proudly finds technology externally.

As representative of these innovation leaders, corporate venture capital has become a mainstream mechanism for companies to plug into their innovation ecosystems.

Synchrony's Innovation Capitalism platform enables corporate venture capital as a fundamental external innovation option for corporations.

CVC Profile: BASF Venture Capital

- Established 2001
- Mission
 - Operate outside business units on chemical and related technology
 - Proprietary technology, but also business models that enable higher margins
- Target
 - B/C Round
 - Typically \$2m-\$3m in B Round
- Deal Flow
 - 400 business plans/year
 - 5 investments (2007)
- Investment Spaces & Growth Targets
 - Energy & Resources
 - Most mature area
 - Fuel cells
 - OLED lighting
 - Organic electronics
 - Health & Nutrition
 - Mobility & Communication
 - Construction & Housing (NEW)
 - Adhesives
 - Insulations
 - Auto
 - Other applications
 - Water treatment (NEW)

• Key Take-Aways

- Using CVC to target and understand new growth opportunities, while improving established business areas
- Looking for both technology and business model innovation to move the company one step higher in the value chain and sustain profitability.

CVC Profile: Air Products

- Company known for its innovation culture
 - Written up in Henry Chesbrough's best selling book *Open Business Models*
- Need innovation to be faster, better, and lower cost
- Fully engaged in creating two-way value with its innovation ecosystem
- Investment spaces & growth targets
 - Electronic Materials
 - Performance Materials
 - Energy
 - Healthcare
 - Gas applications and technology
 - Water treatment, food processing, metal processing, & combustion

• Key Take-Aways

- Air Products has fully embraced open innovation to drive growth and profitability
- Air Products' CVC program is a catalyst for innovation and cultural change

Innovation Index Fund Outperforms

Market by a Wide Margin

The word “innovation” gets batted around a lot these days, and few doubt its importance in creating sustainable competitive advantage. But it’s been tough, until recently, to measure its impact on the ultimate measure of corporate effectiveness: share price. But no more.

“Open Innovation flourishes when there are no boundaries of geography, people or time. Companies must embrace this open culture and values in order to drive substantial new growth through external innovation.”

Sanjay Dalal, Innovation Index Group

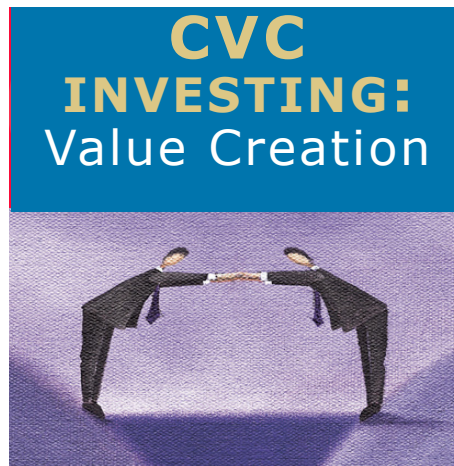
Innovation Index Group (IIG), a Southern California based investment fund managed by Silicon Valley veteran Sanjay Dalal, has seen outstanding results by tracking the share price of highly-innovative companies. Based on the IIG index, total returns from December 2001 would have been 174%, vs. a 24% total compounded returns of the major US stock indices. Through September of this year, it was up 9%.

Most of the firms in the Innovation Index are prestigious companies such as GE, 3M, IBM, and Proctor & Gamble – household names that have created many of the new products and services that have shaped our world over the past fifty plus years.

“Top Innovators innovate and grow their business successfully time and again”, says Dalal. “External innovation is not a nice-to-have in today’s fierce global competitive environment – the top players embrace both internal R&D and Open Innovation as fundamental drivers in creating shareholder value”.

Dalal is in the process of expanding the Innovation Index to include mid-cap companies, with an expected introduction at year end. Mid-cap companies are particularly vulnerable to competitive threats from the large incumbent players and disruptive threats from technology newcomers.

Synchrony’s Innovation CapitalSM platform is especially useful in helping mid-cap companies engage with their innovation ecosystems. It’s purpose-built to turn disruptive threats into opportunities, and to level the innovation playing field with their larger competitors.



1. Create a well-defined strategic investment program to invest in and partner with innovators, based on shared commercial opportunities.
2. Allocate people, resources and processes for the partnering process.
3. Work to help your portfolio companies meet their development milestones, as they work with you to help you meet your commercial goals.
4. Clearly align yourselves with your entrepreneur and venture capital investing partners; understand that just as you need profitable partnerships, they need good exits.

About Synchrony Venture Management

www.synchronyvm.com

Synchrony Venture Management helps Global 2000 firms address the growing importance of private, venture-backed companies in the critical process of producing and commercializing innovation. Synchrony is the leading expert in Innovation CapitalSM for mid-tier corporations, offering assessment, design and ongoing management services for companies seeking to develop a strategic venture capital program.

Strategic Investment AssessmentSM

From viability to blueprint for CVC programs

- Identifies high-value areas for investment
- Assesses organizational fit as a CVC investor
- Sets input and output expectations for a CVC program
- Creates a complete blueprint for a CVC investment unit

Strategic Investment ProgramSM

Complete Management for CVC Programs

- Quickly creates a mechanism for CVC investments
- Manages deal flow, due diligence, execution and ongoing oversight
- Maintains 'VC-normal' discipline in CVC program
- Enhances access to high-quality syndicates as a 'venture-friendly' manager